

STATE OF CALIFORNIA  
BOARD OF ADMINISTRATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DELEGATION RESOLUTION

Subject: Chief Executive Officer and Professional Staff – Alternative Investments      Delegation No: 00-02-BD (Rev.)

- WHEREAS, 1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the Board) is charged with the administration and management of the California Public Employees' Retirement System (CalPERS).
- WHEREAS, 2. In accordance with Government Code section 20170, the Board is also charged with the exclusive control of the administration and investment of the Public Employees' Retirement Fund (the Fund).
- WHEREAS, 3. In accordance with Article XVI, section 17 of the California Constitution, the Board has plenary authority and fiduciary responsibility for the investment of CalPERS assets.
- WHEREAS, 4. In accordance with Government Code section 20099, the Board is authorized to appoint a committee of one or more of its members to perform any act within the power of the Board itself to perform, and may through express delegation authorize any such committee to act finally.
- WHEREAS, 5. Through Board Delegation Resolution No. 89-01 and pursuant to Government Code section 20191, the Board delegated to its Investment Committee the authority to make, through final action and by the affirmative vote of at least seven members, any investment authorized by law.
- WHEREAS, 6. In accordance with Government Code section 20099, the Board may authorize its Chief Executive Officer (CEO) to perform any act within the power of the Board itself to perform, and may through express delegation authorize the CEO to act finally.
- WHEREAS, 7. Through Board Delegation No. 95-101, the Board has established a relationship with its staff whereby the CEO has

Effective February 14, 2006

principal authority and responsibility to direct and manage staff activities, subject to Board policies and strategic direction.

WHEREAS, 8. The CEO has established and the Board has accepted an internal organizational structure, including staff reporting and supervisory responsibilities. Within this organizational structure, the Chief Investment Officer (CIO) reports directly to the CEO and the Senior Investment Officer – Alternative Investment Management (SIO – AIM) reports directly to the CIO. Notwithstanding this reporting structure, the Board has retained certain authority over both the CIO (i.e., decisions concerning compensation, hiring and termination) and the SIO-AIM (i.e., decisions concerning compensation).

WHEREAS, 9. Key terms and definitions are capitalized and defined in Attachment A to this resolution.

RESOLVED,

(A) Recognizing the respective roles of the CEO as the internal leader of the organization and the CIO as the principal investment expert, and yet also wishing to gain the full benefit of the unique private equity expertise of the SIO-AIM, the Investment Committee hereby delegates to the CEO the authority described below, with the understanding that these responsibilities will be further delegated through the CIO to the SIO-AIM. This understanding shall be memorialized hereafter using the generic term “Staff”.

1. Delegation to Staff

(a) Staff shall have the authority and responsibility to develop, for the Investment Committee’s consideration and approval, policies that will achieve the Investment Committee’s strategic direction. Specifically, the proposed policies should:

(i) Recommend proposed guidelines for annual investment profile, ~~i.e.g.~~, recommended balance between investments in ~~Top-4~~ Top-4 ~~Quartile Firms~~, ~~Second non-top-4~~ Quartile Firms, ~~New/Emerging M~~ New/Emerging M ~~management teams~~, ~~Ceo-investments~~ and ~~New V~~ New V ~~ehicles~~.

(ii) Recommend proposed AIM Program portfolio mix guidelines, ~~i.e.g.~~, recommended sub-allocation balance ~~between among~~ leveraged buy-out, venture capital and other investment types such as mezzanine and secondary interest funds.

- (iii) Adopt proposed investment criteria, i.e.g., define the conditions under which the AIM Program will invest with General Partners, make Ceo-investments, and invest in New Vehicles.
  - (iv) Recommend the level and scope of participation by Consultants and /eExternal Resources and recommend the level and scope of discretion by Consultants and /Eexternal Resources.
- (b) Staff shall recommend an annual strategic plan that:
  - (i) Focuses on industry trends and how to best respond to the opportunities created by those trends;
  - (ii) Identifies funds expected to be raised by Top-Quartile Firms with whom CalPERS has a relationship, and how much will be committed to each (with explanation for any amount less than 10% of the fund).
  - (iii) Identifies the 10 to 20 highest priority Top-Quartile Firms with which CalPERS would like to develop a relationship, and the plan for doing so;
  - (iv) Identifies areas where there are opportunities for New vehicles, because of market opportunity and lack of attractive limited partnership investment opportunities in that niche.
  - (v) Explains how the portfolio will achieve its stated benchmarks.
- (c) Staff shall provide quarterly reports to the Investment Committee that will include:
  - (i) Summary of funds at all stages of the review and investment process, i.e., funds turned down, funds in due-diligence, and funds approved and in the contracting process.
  - (ii) Summaries of funds approved under delegated authority shall include the action taken, background information, information on the key principals, an analysis of the fund, litigation information, the delegation authority utilized (including the identity of the benchmark used, if any), and

due diligence information (including the identity of any consultant utilized).

~~(ii) For each stage of the process, individual and collective information will be provided in time required to complete the stage, with comparison to AIM program guidelines and a plan to resolve any bottlenecks.~~

(iii) For approved funds, the management team's invested capital weighted-average internal rate of return ("IRR") compared to the capital-weighted average top-quartile benchmark IRR. When a consultant is utilized to conduct due diligence the consultant shall verify in writing that the investment is authorized pursuant to this delegation resolution.

(iv) Other information as needed related to the budget and use of Consultants and ~~E~~external Resources.

(d) Staff shall have the authority to make investments up to \$800 million into a fund raised by a Ttop-Quartiles Firms if the following requirements are met:

(i) The investment does not exceed 30% of the ~~follow-on~~ fund;

(ii) The Committed Capital with the General Partner of the firm does not exceed 10% of the AIM Program's total Committed Capital; and

(iii) CIO approval is received for investments greater than \$400 million or 20% of the fund. (If there is a vacancy in the CIO position, Board approval is required for investments greater than \$400 million or 20% of the fFund.)

(e) Staff shall have the authority to invest up to \$200 million in a fund raised by a Ssecond Quartile Firms ~~with general partners~~ if the following requirements are met:

(i) The investment does not exceed 20% of the ~~follow-on~~ fund;

(ii) The Committed Capital with the General Partner of the firm does not exceed 10% of the AIM Program's total Committed Capital; and

- (iii) CIO approval is received for investments greater than \$100 million or 10% of the Fund. (If there is a vacancy in the CIO position, Board approval is required for investments greater than \$100 million or 10% of the Fund.)
- (f) Staff shall have the authority to invest up to \$100 million in a fund raised by a New/Emerging Management Teams if the following requirements are met:
  - (i) The investment does not exceed 25% of the fund; and
  - (ii) CIO approval is received for investments greater than \$50 million. (If there is a vacancy in the CIO position, Board approval is required for investments greater than \$50 million.)
- ~~(g)~~ Staff shall have the authority to invest up to \$600 million in an initial commitment to a New Vehicle. CIO approval is required for an investment to a New Vehicle greater than \$400 million. The total relationship with the General Partner may not exceed 10% of the AIM Program's Committed Capital. Staff shall have the authority, with CIO approval, to increase Committed Capital to any existing New Vehicles with top-quartile performance by up to 20%. The total relationship with the General Partner may not exceed 10% of the AIM Program's Committed Capital. In there is a vacancy in the CIO position, Board approval is required where CIO approval would be required.
- ~~(g)~~(h) Staff shall have the authority to invest up to ~~\$75~~200 million in Ceo-investments if the following requirements are met:
  - (i) The ~~general partner fund~~ is making an equal or larger investment;
  - (ii) The investment is smaller than the AIM ~~P~~program's limited partnership investment in that fund;
  - (iii) The Committed Capital with the ~~at G~~general ~~P~~partner does not exceed ~~5~~10% of the AIM ~~P~~program's total Committed Capital.

- (iv) CIO approval is received for investments greater than ~~\$50~~100 million. (If there is a vacancy in the CIO position, Board approval is required for investments greater than ~~\$50~~100 million.)
- (i) ~~Staff shall have the authority to invest up to \$75 million in a new vehicle or a Ddirect iInvestment in an independently-sourced investment if the total relationship with the Ggeneral Ppartner or company does not exceed 105% of the AIM Pprogram's committed capital.~~
- (h) ~~Staff shall have the authority, with CIO approval, to increase Committed Capital to existing new vehicles with top-quartile performance by up to 20%.~~
- (j) Staff shall have authority over all ongoing portfolio maintenance, including amendments, consents, waivers, and sales/dispositions.
- (k) Staff shall be provided an annual budget via the budget process for Consultants and Eexternal Resources. Staff may, consistent with CalPERS contracting policy and guidelines, use the services of third parties as needed. Specifically, Staff may establish a "spring-fed pool" of Eexternal Resources to meet the Program needs.
- (l) ~~The CIO shall have authority to Staff may use, consistent with CalPERS contracting policy and guidelines, the "best business practice" exemption from competitive bidding to hire Eexternal Resources, but only on a highly selective basis, when necessitated by the urgent nature of the work and where the pool of existing Eexternal Resources and Consultants is inadequate. Use of this exemption must be reported monthly to the CIO and the Investment Committee.~~

I hereby certify that on the 1467th day of ~~May~~February~~April~~, 20065, the Investment Committee of the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing amended Resolution originally adopted June 16, 2000 and amended on September 17, 2001, ~~and April 19, 2004~~ and May 16, 2005.

\_\_\_\_\_  
CHARLES VALDES  
CHAIR, INVESTMENT COMMITTEE  
BOARD OF ADMINISTRATION, CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

I accept this delegation.

Dated: \_\_\_\_\_

\_\_\_\_\_  
FRED BUENROSTRO  
CHIEF EXECUTIVE OFFICER  
CALIFORNIA PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM

**Co-investment**

~~A direct investment made available by a General Partner to invest alongside them in a deal.~~ A Direct Investment by CalPERS in a company alongside an investment in that company by a fund in which CalPERS is an investor.

**Committed Capital**

Total active fund commitments (excluding ~~D~~direct investments in the to acquire an equity interest in a General —Partner Holding company) minus return of capital. Note, an active commitment is one that has not been exited in its entirety.

**Consultant**

External consultants, including traditional pension consultants (e.g., Wilshire and PCA Hamilton Lane, PGG) and other consultants (e.g., McKinsey & Company), retained by the Investment Committee to fulfill its fiduciary duty.

**Direct Investment**

An investment that is made directly by CalPERS in a company ~~that may be either a co-investment or an independently sourced investment. Please refer to these respective definitions in this attachment.~~

**External Resource**

Technical resources retained by staff with a special expertise (e.g., pension consultants, investment bankers, management consultants, lawyers) hired, as needed, to supplement AIM staff during the investment process (e.g., due diligence, structuring, negotiations, portfolio monitoring.)

**General Partner**

The managing member of an limited liability company (LLC), or the management company or managing organization of a limited partnership. ~~The General Partner typically has full responsibility for investing the funds of the LLC or limited partnership.~~ As used in this delegation resolution, the term General Partner can also generically refer to the principals that manage a family of funds.



### **Independently-Sourced Investment**

~~———— A direct investment in a company that is sourced through contacts other than the General Partners with which CalPERS is invested.~~

### **New/Emerging Management Team**

~~A new general partnership that raises a first or second-time institutional fund and whose background indicates there is a likelihood they will deliver top-quartile performance. This may include funds being raised by an established General Partner that is targeting a new strategy or has hired a new management team.~~

### **New Vehicle**

~~An investment in a fund where CalPERS partners with a firm that has a distinctive competitive advantage in an industry, geographic region or investment style and CalPERS contributes a significant percentage of the capital, and/or obtains an equity stake in the firm. New Vehicles shall be limited to investments in fund of funds or separate account investments.~~

### **Second-Quartile Firm**

~~A General Partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of all funds managed by the General Partner is in the second-quartile of a private equity industry benchmarks (as measured by such as Venture Economics and Cambridge Associates) and for which qualitative evaluation indicates performance is likely to be in the top-quartile in the future.~~

### **Top-Quartile Firm**

~~A high-performing General Partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of all funds managed by the General Partner is in greater than the top-quartile of a private equity industry benchmarks (as measured by such as Venture Economics and Cambridge Associates) and for which qualitative evaluation indicates performance is likely to continue.~~